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Special:

Circular Letter

TO: STATE AGENCIES, AGRICULTURAL DISTRICTS, PUBLIC AGENCIES, STATE COLLEGES & UNIVERSITIES, COUNTY SUPERINTENDENTS OF SCHOOLS AND INDIVIDUAL SCHOOL DISTRICTS

SUBJECT: 2005 COMPENSATION LIMITS (IRC SECTION 401(a)(17))

Section 401(a)(17) of the Internal Revenue Code provides dollar limitations on benefits and contributions under qualified retirement plans. The purpose of this circular letter is to update you on the limit on compensation for 2005 and outline the procedures for reporting a member who has reached the limit.

The compensation limit for the 2005 calendar year is $210,000. The limit for previous years is as follows:

2004	2003	2002	2001	2000	1999
$205,000	$200,000	$200,000	$170,000	$170,000	$160,000

The compensation limit is only applicable to persons who first became members or participants of California Public Employees' Retirement System (CalPERS) on or after July 1, 1996. For those members who are subject to the limit, their final compensation will be capped at the limit in effect for each 12 consecutive-month period that is used to calculate their allowance if they were to retire. Therefore, the member should not make contributions on earnings that exceed the $210,000 limit within this calendar year. The earnings that are mentioned are those earnings that are reportable to CalPERS, which exclude earnings for overtime, automobile allowances, lump sum payouts, etc. The compensation limit does not limit the salary an employer can pay an employee who is a member of CalPERS.

If you have such an employee whose compensation reaches the limit, the following should be done:

- Send a notice to the following address indicating the member's name, Social Security number and period in which the employee's compensation first exceeded the limit:

  California Public Employees' Retirement System
  Attn: Payroll Manager
  P.O. Box 942709
  Sacramento, CA 94229-2709

- Continue reporting Pay Code, Pay Rate, Member Earnings **and a Contribution Code** (01 or 11), but no member contributions for the periods that remain in the calendar year. Reporting the contribution code allows the employee to continue earning service credit without making contributions on earnings that exceed the limit. While the law limits employee contributions, employer contributions should still be paid on all earnings that are reported. If an employee's pay rate increases after the time you cease reporting contributions, please indicate the higher pay rate and earnings on your payroll transaction in case legislation were to change the original limits established for the year.

- Once the calendar year is over, resume reporting contributions for your employee and begin the monitoring for the new calendar year.

- If an employee has already reached the limit and the above has not been done, please use a CalPERS Contribution Code 02 or 12 to make a prior period contribution adjustment and reverse contributions for each period that was reported to CalPERS on earnings that exceeded the limit. Federal law does not allow CalPERS to refund over-reported contributions to an active member of the system. The employer must report these adjustments and refund the money to the employees themselves.

At this time, employer monitoring of their employees' compensation is the only means CalPERS has to determine if limits are exceeded. CalPERS plans to incorporate an automated means to monitor employee compensation and identify those that exceed the limit in the new contribution reporting system that is currently in the beginning stages of being developed. If you have any questions regarding the limits, please contact the Employer Contact Center at (888) CalPERS (225-7377).

Lori McGartland

Lori McGartland, Acting Chief
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